MALLARD Financial Partners INC

MALLARD MARKET ALERT – 2/28/2020

Here's Why We're Not Panicking

Anyone who has been following the headlines will know the past week has been a strenuous environment for investors. **From the opening bell on Monday until 12:00p today (2/28/2020) the S&P 500 Index is down 10.5% and the Dow Jones Industrial Average Index is down 11.7%.** This erased gains they had earned after October 2019.

All investors are struggling with how to integrate this news, which is especially challenging as the news is evolving by the hour. Many investors are worried, and are tempted to sell stocks at this time. At Mallard, **we strive to help take the fear out of investing**, with our disciplined and data-driven approach to the investment decision-making process.

The Coronavirus was identified in December 2019 in Wuhan, China – and global companies immediately began lowering their earnings forecasts due to the expectation of reduced global trade. Most global stock markets seemed to ignore these developments and instead continued climbing. This changed about two weeks ago when the Coronavirus stories moved from minor headlines to leading headlines to news of falling markets.

To break through the hype, **we would like to discuss major components of this unexpected event.** While the full economic impact of this virus outbreak will not be determined until after new infections are under control, consider the following facts:

- The rate of new infections in the initial provinces (Wuhan and Hubei) and the rest of China has fallen sharply.
- While new infections outside of China are on the rise (scaring the markets), these are happening in developed countries where healthcare resources are available to properly handle an infected population.
- Historically, market reactions to pandemics are more a function of mortality than contagion, and the environmental factors in China of both a high smoking rate and poor air quality suggest the **mortality rates of Coronavirus in other countries will be lower than it has been in China**.
- Market reactions are never perfectly predictable, but we have data on market reactions to recent pandemic outbreaks. An evaluation of average S&P 500 performance during and after the start of the five most recent pandemics (SARS, Swine Flu, Bird Flu, Ebola, MERS) shows a maximum decline around 7½% with a **steady positive rebound** of around 1% in a month, around 6% in three months, and around 12% in six months.

While we're closely monitoring news which could have an impact on the markets, at this time we expect that the reaction to Coronavirus will prove to be a significant, short-term event, like similar outbreaks in the recent past, and similar to major hurricanes. When they arise, there is fear, and a quick, but short, decline in economic activity. **This economic slowdown typically passes fairly quickly, and is followed by a rebound.** In this case, the economic impacts could be concentrated, in China and other areas of Asia much more than elsewhere.

2019 was a terrific year for stocks and stock investors. By early February 2020, US stock markets were making record highs, and were priced a little expensively. This week we have experienced a sudden and sharp decline. Given the lessons from similar events in the past, we feel that the best course for most investors should be “don’t panic.” In fact, our **Drop & Give Me Five™** program to “buy the dips” has been enabling Mallard clients who opt-into this program to boost their stock levels this week, hopefully buying low.

As was the case in late 2008/early 2009, we strenuously recommend that clients avoid the temptation to reduce their stock levels during stock market declines such as this week’s. This is not the casino, where you have to cash out in a few hours. Our clients have multi-year, and often multi-decade planning horizons. This timeline removes the need to sell low, and enables our clients to focus on the longer-term view, which supports disregarding short-term declines and jumps. It helps our clients sleep more soundly at night, even when headlines rage.

Your Mallard Investment Team

Paul S. Baumbach
paul@mallardfinancial.com

Kenny Beach
kenny@mallardfinancial.com

Joseph L. Daigle
joe@mallardfinancial.com

Aaron Snyder
aaron@mallardfinancial.com